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Message Text

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ORIGIN NEA-11

INFO OCT-01 ISO-00 SS-15 SP-02 H-01 INR-10 PM-05
NSC-05 DODE-00 CIAE-00 TRSE-00 OMB-01 /051 R

DRAFTED BY NEA/EGY;DZWEIFEL/BD
APPROVED BY NEA:NAVELIOTES
DOD/DSAA:JBECKER
DOD/ISA/NESA;GWILSON
PM:DKEENE
TREAS:CCROSSWHITE
----------083794 231050Z /15
R 230051Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY CAIRO
AMEMBASSY AMMAN
INFO AMEMBASSY ABU DHABI
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT

C O N F I D E N T I A L STATE 130213

E.O. 11652: GDS

TAGS: MASS, MARR, EG, XF

SUBJECT: FUNDING EGYPTIAN MILITARY AND MILITARY RELATED PURCHASES
REF: A) STATE 101030, B) JIDDA 3211, C) ABU DHABI 1114
D) KUWAIT 2419, E) DOHA 538

1. BASED ON INTERAGENCY DELIBERATIONS IN WASHINGTON AND CONSONANT WITH RESPONSES IN REFTELS B THROUGH E, WE WILL SEEK TO MAKE ARRANGEMENTS FOR HANDLING PAYMENTS FOR EGYPTIAN MILITARY PURCHASES THROUGH ESTABLISHMENT OF TRUST FUND. DONOR(S) WOULD ESTABLISH EITHER IRREVOCABLE LINES OF CREDIT

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WITH U.S. COMMERCIAL BANK(S), OR DEPOSIT FUNDS IN ADVANCE IN INTEREST BEARING ACCOUNT(S), AGAINST WHICH DRAWDOWNS WOULD BE MADE AS NECESSARY TO MEET SCHEDULED PAYMENTS (PARA 6 OF REFTEL A).
2. OUR TACTICAL PLAN IS FIRST TO DISCUSS CONCEPT WITH GOE. IF WE GET GOE CONCURRENCE, NEXT STEP WILL BE FOR EGYPTIANS TO CARRY OUT NEGOTIATIONS WITH SAUDIS (AND OTHER POTENTIAL

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DONORS AS THEY DEEM NECESSARY), INCORPORATING DISCUSSION OF OUR PROPOSED MECHANISM FOR HANDLING PAYMENTS IN THAT PROCESS. AT SUCH TIME AS EGYPTIANS INFORM US THAT POTENTIAL DONOR(S) AGREEABLE TO PROPOSED FORMULA, WE WOULD APPROACH DONOR GOVERNMENT(S) TO ENDORSE GOE EFFORT AND TO WORK OUT DETAILS.

3. FOLLOWING ARE OUR CURRENT THOUGHTS ON DETAILS OF PLANS, SUBJECT TO FURTHER REFINEMENT:

--DONOR(S) WOULD REACH AGREEMENT WITH GOE TO FUND SPECIFIC PROCUREMENTS OR PROGRAMS WHETHER FMS, COMMERCIAL MILITARY SALES, OR COMMERCIAL CONTRACTS (E.G. G.E. CONTRACT FOR E-1). USG WOULD NOT BE INVOLVED IN THIS STAGE OF PROCESS.

--GOE WOULD REMAIN SOLE SIGNATORY TO RELEVANT LOAS AND/OR CONTRACTS AND RETAIN ULTIMATE FINANCIAL RESPONSIBILITY IN THE EVENT OF NON-PAYMENT BY DONOR(S).

--DONOR(S) WOULD UNDERTAKE TO MAKE DIRECT PAYMENT TO USG OR COMMERCIAL CONTRACTORS IN AMOUNTS AND AT SUCH TIMES AS THEY BECOME DUE FOR LOA'S OR CONTRACTS RELATING TO THEIR COMMITMENT TO GOE.

--PREFERRED METHOD WOULD BE FOR DONOR(S) TO OPEN LETTER(S) OF CREDIT WITH A U.S. COMMERCIAL BANK FOR TOTAL AMOUNT OF COMMITMENT TO GOE, WITH USG DRAWING AGAINST LETTER OF CONFIDENTIAL

CREDIT BY STANDARD DD 645 FMS BILLING PROCEDURE RELATED TO FMS CASES, AND CONTRACTOR DRAWING AGAINST LETTER OF CREDIT IN ACCORDANCE WITH STANDARD COMMERCIAL PRACTICE FOR DIRECT COMMERCIAL PROCUREMENTS. THIS WOULD ELIMINATE QUESTION OF PAYMENT OF INTEREST ON ANY FUNDS ON DEPOSIT (PARA 1 (A) OF JIDDA 3211; LETTER QUOTED IS SAUDI CONCURRENCE TO LETTER OF CREDIT AND BILLING PROCEDURE PROPOSED BY DSAA COMPTROLLER FOR FMS CASES).

--ALTERNATIVE TO LETTER OF CREDIT PROCEDURE OUTLINED ABOVE WOULD BE ARRANGEMENT WHEREBY DONOR(S) WOULD ESTABLISH ACCOUNT IN COMMERCIAL FINANCIAL INSTITUTION(S) IN U.S. WITH AN AGENCY AGREEMENT BETWEEN THAT FINANCIAL INSTITUTION AND DONOR(S) WHICH WOULD AUTHORIZE FINANCIAL INSTITUTION(S) TO PAY BILLS RECEIVED FROM U.S. DEFENSE SECURITY ASSISTANCE AGENCY (DSAA) OR SPECIFIED COMMERCIAL CONTRACTOR AS APPROPRIATE. AGREEMENT COULD ALSO PROVIDE FOR GOE TO BE PART OF AGENCY AGREEMENT AND TO BE RESPONSIBLE FOR MAKING ANY PAYMENTS INTO ACCOUNT NECESSARY TO MEET BILLINGS IN EVENT DONOR(S) FELL BEHIND.

--DONOR(S) AGREEMENT(S) TO ABOVE PROCEDURE WOULD BE FOR-

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MALIZED THROUGH AN EXCHANGE OF DIPLOMATIC NOTES BETWEEN RESPECTIVE GOVERNMENT(S) AND USG, COPIES OF WHICH WOULD BE FORWARDED TO GOE. INSTRUCTIONS FOR BILLING DONOR COUNTRIES AND METHOD OF PAYMENT WOULD BE ANNEXED OR REFERENCED IN THIS EXCHANGE.

4. BASED ON ABOVE, REQUEST THAT EMBASSYCAIRO SEEK EARLY OPPORTUNITY TO DISCUSS PROPOSAL WITH GAMASY OR OTHER RANKING GOE OFFICIALS. ALTHOUGH WE PREFER THAT FUNDING FOR MILITARY AND MILITARY-RELATED PURCHASES BE HANDLED IN ONE OF FORMS OUTLINED ABOVE, WE RECOGNIZE THAT EGYPTIANS ALREADY MAY HAVE CONCLUDED AGREEMENTS CONCERNING CERTAIN EXISTING OR PROSPECTIVE PROGRAMS. IF POSSIBLE, WE WOULD LIKE TO RESTRUCTURE SUCH PROGRAMS IN KEEPING WITH OUR PRO-
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POSED FORMAT. HOWEVEVER, IF THIS IS NOT PRACTICAL, WE WILL PROPOSE CONCEPT ABOVE FOR ANY PROGRAMS FOR WHICH FUNDING NOT ALREADY ARRANGED. WE ARE PARTICULARLY DESIROUS TO HAVE THIS IN CASE OF F-5 PURCHASE.

5. WE WOULD APPRECIATE SUCH DETAILS AS EMBASSY MAY OBTAIN CONCERNING EXISTING ARRANGEMENTS IF IT APPEARS THESE WILL NOT CONFORM TO OUR PROPOSAL.

6. FOR AMMAN: WHILE THE DONOR ARRANGEMENT OUTLINED ABOVE IS PROPOSED FOR EGYPTIAN FMS CASH SALES, WE BELIEVE BASIC OUTLINE CAN APPLY TO DONOR(S) FOR JORDAN'S FUTURE PROGRAMS (WHETHER FMS CREDIT OR CASH SALES. GIVEN TIME AND OTHER RESTRAINTS WE BELIEVE THIS WILL NOT APPLY TO JORDAN'S FY 77 FMS PROGRAM, WHICH WE WILL ADDRESS SEPTEL.) WE WOULD APPRECIATE EMBASSY AMMAN'S VIEWS ON FEASIBILITY OF THIS PROPOSAL FOR JORDON. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY ASSISTANCE, FINANCIAL CONTRIBUTIONS, MILITARY SALES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE130213
Document Source: CORE
Document Unique ID: 00
Drafter: EGY;DZWEIFEL/BD
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780216-0925
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780528/aaaaaxtr.tel
Line Count: 153
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fa894698-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 STATE 101030, 78 JIDDA 3211, 78 ABU DHABI 1114
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2601794
Secure: OPEN
Status: NATIVE
Subject: FUNDING EGYPTIAN MILITARY AND MILITARY RELATED PURCHASES
TAGS: MASS, MARR, EG, XF, US
To: CAIRO AMMAN
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/fa894698-c288-dd11-92da-001cc4696bcc
Review Markings:
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Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014